

Social inequality in the face of death*

By [Gilles Le Garrec](#)

The problem of inequality in the face of death has become an important topic in French public discourse in recent times, in particular in autumn 2010 during debate about raising the minimum legal retirement age by two years, by gradually shifting it from age 60 to 62. The debate became focused around a politically divisive issue: should the retirement age remain unchanged for low-skilled workers on the grounds that they enter the labour market earlier and / or have more strenuous jobs and live shorter lives? Since the socialist government came to power in 2012, two exemptions have been introduced to allow less-skilled workers to continue to retire at 60. First was the introduction in summer 2012 of an exception for a “long career”, that is to say, for those who have contributed for a sufficiently long time. This September 2013 it has also been decided to set up a “hardship” account, starting in 2015, which will allow all employees who are exposed to working conditions that reduce their life expectancy to retire earlier. Nevertheless, the issue of inequality in the face of death – a taboo subject? – involves much more than simply the retirement age; before that, there are also the issues of inequality in income, housing, access to employment, education, etc. What follows is a small panorama (statistical) on inequality in the face of death in France, its causes and the difficulty of developing a political solution due to the multidimensional factors involved.

Very old – but not very reliable – statistics

From the late 18th century [\[1\]](#), the development of censuses, which was associated with the rise of statistics, has made it

possible to build up data that show the existence of a close link between inequality in the face of death and social inequality more generally. These early studies show that inequality in the face of death is explained primarily by income (Cambois, 1999). However, the import of these studies is limited due to the low reliability of their data and methodology. It is no easy matter to develop reliable indicators on this issue. Once we have the socio-professional categories (SPC) for death statistics and censuses, we can easily calculate mortality rates by comparing the number of deaths for the year (or years) classified by SPC with the size of the population classified in the same way. For example, in France for the period 1907-1908 Huber catalogued on an annual basis the death of 129 business executives aged 25 to 64 out of a total of 10,000, compared with 218 workers. This simple and intuitive method nevertheless gives a distorted view of social inequality in the face of death, due to incompatibilities between population data and mortality data (Desplanques, 1993). The difficulty of obtaining an accurate representation of inequalities in the face of death becomes especially difficult with this method, as there is a growing trend for career paths to fragment, with alternating periods of activity and unemployment.

The longitudinal method and its lessons

To overcome this problem, France's INSEE has developed a longitudinal method that consists of regularly monitoring a group of individuals who have particular characteristics at a given point in time, and ultimately the date of their death. The permanent population sample thus obtained, which was initialized during the census of 1968, currently includes approximately 900,000 individual histories, ensuring a good representation of the French population ([Couet, 2006, for a description of this sample and how it was constructed](#)). This large-scale socio-demographic panel makes it possible to draw a relatively accurate picture of social inequality in the face

of death in France. This shows that individual lifetime varies greatly from one socio-professional category to another, especially among men (Table 1). Male executives have a life expectancy (at age 35) that is four to five years above the average for men. Excluding inactive people [2], the most disadvantaged groups are manual workers, followed by white-collar employees, with life expectancies that are, respectively, two years and one year less than the average. Another interesting point is that the overall gain of four years in life expectancy over the period did not reduce inequalities in the face of death. The relatively stable result is that at age 35 the life expectancy of manual workers is six to seven years less (and white-collar employees five to six years less) than that of corporate executives and managers. In addition, at age 35 on average the latter experience 34 years in good health [3], 73% of their life expectancy, against 24 years for manual workers, or 60% of their life expectancy ([Cambois et al., 2008](#)). While among women, the difference in life expectancy between managerial personnel and manual workers was “only” three years at the time of the last census, the differences are comparable with those for men in terms of life expectancy in good health. The conclusion is clear: numerous social inequalities persist in the face of death, including in terms of health. This conclusion holds for every country in Western Europe that has conducted this kind of study, although it should be noted that the level of inequality in France appears to be the greatest by far (Kunst et al., 2000). The ratio of “manual to non-manual mortality” in France was 1.71 for men age 45-59, whereas it is on the order of 1.35 in most other countries (Finland, second behind France in terms of inequality, is 1.53). Leaving aside issues of data comparability, alcohol consumption is, according to Kunst et al. (2000), the most important factor behind the specific situation of France. Indeed, the greatest inequalities in mortality in France are due to major differences in mortality due to liver cirrhosis and to cancer of the aerodigestive tract, both of which are

associated with excessive alcohol consumption.

**Table. Life expectancy of men and women at age 35,
By period and socio-professional category**

In years

Socio-professional category	Life expectancy at age 35			Difference with the average			Life expectancy at age 35			Difference with the average		
	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008
	Men						Women					
Executives/managers	43,7	45,8	47,2	+4,5	+5	+4,4	49,7	49,8	51,7	+3,3	+1,8	+2,3
Intermediary profession	41,6	43,0	45,1	+2,4	+2,2	+2,3	48,1	49,5	51,2	+1,7	+1,5	+1,8
White collar employee	38,6	40,1	42,3	-0,6	-0,7	-0,5	47,4	48,7	49,9	+1	+0,7	+0,5
Manual worker	37,3	38,8	40,9	-1,9	-2	-1,9	46,3	47,2	48,7	-0,1	-0,8	-0,7
Inactive, not retired	27,5	28,4	30,4	-12,7	-12,4	-12,4	45,4	47,1	47,0	-1,0	-0,9	-2,4
Total	39,2	40,8	42,8	-	-	-	46,4	48,0	49,4	-	-	-

Source : Blanpain (2011), based on data from the permanent demographic sample, INSEE.

The causes

Several factors have been identified to explain the difference in mortality between socio-professional categories.

First, one can easily imagine that the working conditions of manual workers are usually physically demanding and debilitating. Moreover, during the 1980s we have seen a transformation in the structure of unskilled jobs. Over this period, the increasing need for businesses to be highly responsive has led to a more widespread use of flexible and precarious forms of employment (short-term contracts; atypical schedules; development of part-time, temporary work, etc.). But the increasingly precarious nature of work, which affects low-skilled jobs above all, is contributing to a serious deterioration in working conditions. Global economic conditions may therefore play a part in explaining disparities in mortality. In any event, working conditions are not improving as quickly for manual workers as for managers. This is certainly the view that was advocated in establishing the "hardship" account that is to be implemented from 2015. So any private sector employee who is exposed to working conditions that reduce life expectancy will accumulate points that will, among other things, enable them to retire early, and potentially before the statutory threshold of 62.

It should also be noted that the most disadvantaged groups cumulate a number of risky behaviours, such as smoking, excessive alcohol consumption, poor diet and a sedentary lifestyle. In contrast, managers and the intermediate professions smoke and drink in moderation. As was already pointed out as a factor in France's poor results in Western Europe (Kunst *et al.*, 2000), these differences in behaviour show up clearly in the mortality rates associated with certain diseases. The risk of death due to a tumour in the aero-digestive tract (larynx, pharynx, lungs, oesophagus, liver) is especially high among manual workers, and is at the heart of a significant portion of the observed differences in mortality. For example, during the 1980s, among men aged 45 to 54, the mortality rate associated with a tumour of the pharynx was 11 times higher for skilled workers and labourers than for teachers and the intellectual professions (Desplanques, 1993).

A lack of access to healthcare for the most disadvantaged groups is another explanation offered for the disparities in mortality, first of all because of costs. [Mormiche \(1995\)](#) thus shows that the consumption of medical products (their quantity but also their nature) is highly dependent on income. Disparities in access to healthcare are particularly marked for care that is expensive or poorly covered (especially dental). [Herpin \(1992\)](#) points out that a reduction in income due to a loss of employment leads to an almost proportional reduction in consumer spending, including on health. The risk of death rises by 60% for unemployed men in the years following a job loss ([Mesrine, 1999](#)). A man in poor health is of course more likely to be unemployed, but unemployment, due to the development of financial stress and disorientation and to personal factors, may affect health by creating a physical and emotional distance with respect to obtaining care.

Finally, the social environment and the local context play an important role in the persistence of social inequalities in the face of death, as can be seen in Table 1. The idea that

the behaviour of individuals is influenced by their place of residence has been developed in an extensive literature in the fields of both sociology and psychology ([Roberts and DelVecchio, 2000](#)). Mechanisms through which children identify with the behaviour of the adults surrounding them highlight a collective type of socialization. However, socio-spatial polarization, which is characterized by the creation of urban areas that cumulate all sorts of social disability, has been steadily increasing since the 1980s in France ([Fitoussi et al., 2004](#)). In these neighbourhoods, the high level of concentration of groups characterized by risky behaviours may, through this process of identification, root these behaviours in the core of people's lifestyle. This phenomenon may explain why prevention policies among high-risk populations are ineffective. The financial difficulties that are giving rise to the under-utilization of medical facilities can also wind up leading to social distancing from health issues. The weak participation of women from disadvantaged strata in public programmes to screen for breast cancer is illustrative of this. Moreover, even in countries where there is effective universal health coverage, the differences in the consumption of healthcare persist.

What should we conclude?

Social inequality in the face of death is a sensitive issue. At the heart of this problem lie a multitude of more or less overlapping causes. To be effective, policies to combat this type of inequality must grasp them as components of an ensemble, with interactions throughout their economic, social and spatial dimensions. While awaiting the reduction of these larger inequalities, it would seem worthwhile to establish just social policies that take account of this inequality in the face of death. In this regard, setting up a "hardship" account that enables any employee who is exposed to working conditions that reduce their life expectancy to retire earlier is definitely a step in the right direction. Nevertheless, the

establishment of criteria is not as easy as it seems. Indeed, it is clear that a good share of social inequality in the face of death can be explained by risky behaviour. Some might reason that such behaviours are an expression of individual freedom and that it is not up to society to compensate for the consequences. Or, it could be argued, to the contrary, that these behaviours are a response to psychosocial stress caused by, among other things, difficult working conditions. From this perspective, the compensation represented by an earlier retirement would seem more equitable. But it is not certain that we can really distinguish these two cases. You can bet that the future definition of the criteria for accumulating points to meet the “hardship” criteria giving entitlement to early retirement will be the subject of lengthy negotiations....

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[1] Pioneering works that could be cited include those by [Moheau \(1778\)](#) and [Villerm e \(1840\)](#).

[2] A category that groups individuals who have never worked. For women, this means mainly “housewives”.

[3] Good health is defined by the absence of limitations on everyday activities and the absence of incapacity.

What minimum wage for Germany?

By Odile Chagny and Sabine Le Bayon

The campaign for the parliamentary elections taking place on 22 September in Germany has engendered a broad debate among all political forces about the consolidation of the welfare state. The SPD programme highlights the concept of social justice, while in its programme the CDU has taken up several of the SPD’s main themes in the field of social welfare. The role of the welfare state has never been more central to a general election campaign since 2002. Despite this, the concern is not to move towards expanding the welfare state but the need for better quality in the welfare state, by correcting some of the negative consequences of Agenda 2010 [1]. The fight against poverty at more advanced ages (through a revaluation of family benefits for older mothers and the

introduction of a contributory minimum), the re-regulation of certain types of work (temporary) and the need to strengthen the minimum wage are all clearly reflected in the programmes of both the CDU and the SPD. Even the FDP, traditionally hostile to any notion of a minimum wage, has incorporated in its election platform the need for “adequate pay, even at the bottom of the wage scale”. However, behind this apparent unity, the way such a minimum wage would work varies greatly between the parties.

The weakening of the collective bargaining system

In a country where there is no statutory national minimum wage, pay scales are negotiated at the regional or national level by the social partners in each business sector. But the decline in the share of employees covered by a collective bargaining agreement (53% in 2012 in the old Länder, 36% in the new Länder, against, respectively, 70% and 56% in 1996), the weakening of the trade unions and the development of atypical forms of employment, particularly since the Hartz reforms, have led to an increase in the proportion of people earning a low wage, which is calling into question the protective role of the collective bargaining system for an entire segment of the population. In 2010, the share of low-wage workers [\[2\]](#) was 22.2% in Germany and 6.1% in France. The majority of the 8.1 million employees concerned ([Kalina and Weinkopf, 2013](#)) work full-time (45%), one-quarter occupy part-time jobs subject to social security contributions, and 30% are employed in “mini-jobs”. The range of workers earning a low wage (less than 9.14 euros [\[3\]](#)) is broad: 1.8 million receive less than 5 euros per hour, 2.6 million between 5 and 7 euros, and 2.5 million between 7 and 8.50 euros.

The debate over the introduction of a statutory minimum wage dates back to the 1990s. For a long time, however, this was confined to a few sectors, construction in particular, based on a rationale of dealing with wage competition from businesses in the new Member States of the European Union, who

sent their employees to Germany under pay conditions that were much below those provided for by collective bargaining. It was not until the mid-2000s that the first joint trade union call for a national minimum hourly wage (7.5 euros per hour) was finally made by the DGB (the German confederation of trade unions) and that concerns over income support gradually came to outweigh concerns over wage dumping. This level was upgraded to 8.5 euros as of May 2010.

SPD and CDU/CSU/FDP: Two different visions of the minimum wage

While all the major parties put forward a desire to establish a minimum wage, there is not much consensus about the practical arrangements.

The SPD is proposing the introduction of a statutory minimum wage of 8.5 euros per hour (gross), which would apply to all employees, regardless of the minimum wage agreed for any particular sector. The point is, as was noted by the SPD candidate, Peer Steinbrück, during a debate he had with Angela Merkel in early September, to put an end to the “patchwork of minimum wages that exists from sector to sector and region to region”. Some 6.9 million people would see their hourly wage revalued ([Kalina and Weinkopf, 2013](#)) by 30% on average and by over 80% for the 1.8 million employees earning less than 5 euros per hour. About one-fifth of employees would be affected, more than half of whom have a “normal” job (subject to social security contributions). This would result in large-scale shocks both to income (for households) and to competitiveness (for companies), and would pose a real challenge to the low-wage economy that now characterizes certain sectors (agriculture, food, retail, hotel and catering, security and cleaning, etc.).

Because of this, the issue of the minimum wage is inseparable from the future of “mini-jobs”, the 7 million posts that pay less than 450 euros per month (400 euros prior to April 2013), which are exempt from employee social charges and income tax

and which give virtually no access to social rights. In the case of the introduction of a national minimum wage of 8.5 euros per hour, these employees would represent nearly 40% of those whose wages would be revalued.

It should not be forgotten that one of the key measures of the first SPD-Green government led by Schröder was in 1999 to severely restrict the growth of “mini-jobs”, which were charged with 1) promoting the casualization of employment by replacing normal jobs that are subject to social charges, and 2) not offering social security coverage. Three years later, the Hartz Commission proposed facilitating the recourse to mini-jobs so as to develop sectors with low-skilled work.

Numerous studies have recently revealed blatant violations of labour law (lack of compliance with regulations on sick leave, on paid holidays, etc.) and unacceptably low hourly wages in these jobs (Bäcker and Neuffer 2012 [\[4\]](#), [Bundesministerium für Familie, 2012](#)). It is therefore not surprising that all the major parties (except the FDP) have included in their election manifestoes a commitment to reforming “mini-jobs”. But whereas the CDU is only targeting violations of labour law, the SPD programme goes further. The introduction of a minimum wage of 8.5 euros (gross) per hour would in effect limit companies’ interest in making use of “mini-jobs”. Furthermore, given the monthly ceiling on the maximum payment for “mini-jobs”, setting a wage of 8.5 euros per hour would amount to introducing a time limit on these jobs of about 13 hours per week. This would not be far from the limit of 15 hours per week that was suppressed by Hartz Law II in 2003 ... as part of Agenda 2010 [\[5\]](#). More generally, the entire political economy underlying these jobs would be called into question, as their rationale is to provide extra compensation that is exempt from social security contributions for employees in sectors with low minimum wages.

The CDU proposal on the minimum wage aims both at facilitating the extension of existing agreements (that is to say, to

reform the process by which a collective agreement becomes mandatory for all the companies in the sector in question) and at requiring sectors without a collective agreement to set a minimum wage. A desire to secure protection against wage competition from companies that do not adhere to collective agreements and from East European companies who post their employees in Germany [6] has led several sectors to resort to these extension procedures in recent years. However, while an extension like this is virtually automatic in France, this is far from the case in Germany, even though the procedure was simplified in 2009. The CDU therefore proposes a “least burdensome approach”, that is to say, government intervention only in cases where the social partners have failed. The aim is to deal with situations where there is an “agreement vacuum” and allow a maximum number of employees to be paid according to collectively agreed minimum wages, while enabling the social partners to fix the level, since the CDU believes that minimum wage differentials help to take into account the diversity of regional and sectoral situations.

The CDU, which is unlikely to be able to govern alone in the next Parliament, has not gone farther than this for the time being, pending the outcome of the elections. Depending on which party it will govern with, the decisions about how low wages are regulated can differ greatly.

Here it is worth summarizing the numerous limitations of the current arrangements for the State’s extension procedure, which set the context for the CDU’s proposal:

- – When the same sector has a number of different collective bargaining agreements, the extension procedure becomes more difficult, as it is necessary to determine which one is most representative and which ones could be controversial. This is what happened in the postal sector, where two competing collective bargaining agreements co-existed: one covering employees of Deutsche Post, the former monopoly in the sector, and

the other covering employees of competitors for whom minimum wages were much lower. The government decided to extend the agreement signed in Deutsche Post to the entire sector, but the competitors complained, and the extension procedure was overturned by the Berlin Court [\[7\]](#).

- – Negotiations on a sector's minimum wages are renewed regularly (every six months or every one or more years). But when renegotiation fails, several months may elapse during which no minimum is in effect, and employers have sometimes seized the opportunity to hire employees at wages that are 30% below the previous minimum. This is what happened for instance in late 2009 in the industrial cleaning business ([Bosch and Weinkopf 2012](#)).
- – The minimum in a sector can vary greatly, and some of them do not protect workers against the risk of poverty. Thus, according to data from the [WSI-Tarifarchiv \(March 2013\)](#), 11% of collective agreements in late 2012 provided for a minimum of less than 8.50 euros, the threshold proposed by the SPD as the statutory minimum wage, which is below the threshold for a "low wage" (9.14 euros).

The impact of the proposals of the various parties on changes in employment is difficult to estimate from studies conducted recently in Germany ([Bosch and Weinkopf 2012](#)), if only because the studies have focused on the introduction of minimum wages in isolated sectors, covering only a limited proportion of employees. This would not be comparable to the introduction of an industry-wide minimum wage that affected at least a quarter of employees, that was not differentiated, or even with the generalization of collectively agreed minimums. The goal is now for the maximum of employees to receive a "decent" income, even if the level of the latter differs depending on the programme. It is also to curtail certain atypical forms of employment. Notably, in a number of sectors the studies conducted show that the introduction of a minimum wage leads

to a change in the structure of employment, with fewer “mini-jobs” and more “normal” jobs (subject to social security contributions), due to the regular checks conducted to ensure compliance with the minimum wages in the companies. Whatever the election results, the measures adopted will in any case point in the direction of correcting the most egregious injustices in terms of compensation, especially with respect to “mini-jobs”.

[1] Agenda 2010 includes all of the reforms implemented in Germany by the SPD-Green coalition between 2003 and 2005, which focused on labour market reform (called the Hartz reforms) (for more on this, see e.g. [Hege 2012](#), [Chagny 2008](#)).

[2] These are employees receiving less than 2/3 of the median gross hourly wage.

[3] In 2011, the median gross hourly wage in Germany was 13.7 euros.

[4] “Von der Sonderregelung zur Beschäftigungsnorm : Minijobs im deutschen Sozialstaat” [On special employment standards: Mini-jobs in the German welfare state], WSI Mitteilungen 1/2012.

[5] Not to mention the fact that as a result it would be necessary to completely revamp the support for low-wage workers provided by exemptions on employee social charges.

[6] When companies from a Member State send their workers to another State, they are required to meet the minimum standards (working time, wages). The posting of workers has been governed by a 1996 EU Directive. These postings, which are growing in number, are posing a number of problems (social dumping, unfair competition, deterioration in working conditions) ([Metis 2013](#)).

[7] For further information, see: [“Vrais et faux enjeux de la controverse sur les salaires minima légaux en RFA” \[True and false issues in the controversy over the statutory minimum wage in the RFA\]](#), Karl Brenke, *Regards sur l'économie allemande*, no. 94, 2009.

2013 pensions: a (little) reform...

By [Henri Sterdyniak](#)

The measures announced by the government on August 27th do not constitute a major reform of the pension system. As shown in [an OFCE Note \(no. 31 of 4 September 2013\)](#), they are essentially funding measures that are limited in scope. Pensioners are affected more than assets, and the business world has obtained a promise that it will not be hit. Fiscal equilibrium is not really assured, as it is conditioned on a strong economic recovery (by 2020), sustained growth and a net decrease in the relative level of pensions by 2040. Measures in favor of women and workers who are subjected to difficult work conditions were announced, but their implementation was delayed; the challenges are still not being met. The worst was certainly avoided (the de-indexation of pensions, a rapid change in the age of retirement eligibility, a so-called structural reform); the system is proclaimed to be sustainable, but the (little) reform of 2013 has not done much to ensure the system's economic and social reliability.

How can one defend the 1%?

By [Guillaume Allègre](#)

In a [forthcoming article](#) in the *Journal of Economic Perspectives* [\[1\]](#), Harvard Professor and bestselling textbook author Greg Mankiw defends the income earned by the richest 1% and denounces the idea of taxing them at a marginal rate of 75%. For Mankiw, people should receive compensation in proportion to their contributions. If the economy were described by a classical competitive equilibrium, then every individual would earn the value of his or her own marginal productivity, and it would be neither necessary nor desirable for the government to redistribute income. The government would limit itself to correcting market distortions (externalities, rent-seeking).

In a [OFCE's Note \(no. 4, 19 July 2013\)](#), we show that the economy in which the 1% live is very different from a classic competitive equilibrium in ways that Mankiw does not discuss, which seems to us to be a significant limitation in his argument. It is *because* the 1% do not live in a world of perfect competition that they are able to secure astronomical incomes. The incomes received on the market by the 1% do not therefore correspond to their marginal social contribution. This does not mean that their social contribution is null, but rather that the market is unable to measure this contribution. These astronomical incomes cannot therefore be defended on the basis of "merit measured by marginal contribution", as proposed by Mankiw.

See the following OFCE blogs on the same subject: "[Superstars](#)

[and equity: Let the sky fall](#)” and “[Pigeons: how to tax capital gains](#)”.

[1] G. Mankiw, 2013, “Defending the one percent”, forthcoming *Journal of Economic Perspectives*. http://scholar.harvard.edu/files/mankiw/files/defending_the_one_percent_0.pdf

Roofs or ceilings?

by [Philippe Weil](#)

The [bill to promote access to housing and urban renovation](#) provides for regulating rents “mainly in urban areas where there is a strong imbalance between housing supply and demand and where rents have experienced the steepest increase in recent years”. Rents that exceed the median rent, set by neighbourhood and housing type, by more than 20% “will be targeted for a reduction”. The purpose of the cap is of course laudable, as it is “designed to combat the housing crisis, which for many years has been characterized by a sharp increase in prices, housing shortages and a decline in consumer purchasing power”. The road to hell is, alas, paved with good intentions, as today’s ceilings often destroy tomorrow’s roofs :

- “Rent ceilings [...] cause haphazard and arbitrary allocation of space, inefficient use of space, retardation of new construction and indefinite continuance of rent ceilings, or subsidization of new construction and a future depression in residential building. Formal rationing by public authority would

probably make matters still worse.”

Opposing rent ceilings does not mean, however, resolving the inequalities that arise with respect to housing:

- “The fact that, under free market conditions, better quarters go to those who have larger incomes or more wealth is, if anything, simply a reason for taking long-term measures to reduce the inequality of income and wealth. For those, like us, who would like even more equality than there is at present, not alone for housing but for all products, it is surely better to attack directly existing inequalities in income and wealth at their source than to ration each of the hundreds of commodities and services that compose our standard of living. It is the height of folly to permit individuals to receive unequal money incomes and then to take elaborate and costly measures to prevent them from using their incomes.”

The authors of these two quotes, which enjoin us to allow the free market system to allocate the available housing to tenants and which advocate attacking inequality of income and wealth directly at the source, are none other than Milton Friedman and George Stigler – the two founders of the Chicago School. The title of this post is borrowed – I hope they forgive me – from their 1946 article [“Roofs or Ceilings: the Current Housing Problem”](#) [1].

The Duflot bill envisages a rent control mechanism that is far more sophisticated than the one denounced by Friedman and Stigler nearly seventy years ago. Its impact on the French real estate market can of course be evaluated in a few years, but the recent economic literature warns that so-called “second generation” rent control mechanisms often have ambiguous effects [2] – not always negative but not necessarily positive [3]. In these circumstances, it is regrettable that a preliminary experiment of the sort that

prudence demands is not being considered for some randomly selected cities. While political urgency undoubtedly argues against delay, nevertheless in economics as in medicine it is crucial to ensure that efforts to cure the patient do not wind up killing him.

To conclude, the warning of Friedman and Stigler still holds: inequalities in income and wealth need to be attacked directly at the source, and not later down the line.

[1] Foundation for Economic Education, Irvington-on-Hudson, NY.

[2] Cf., for example, *The Economics and Law of Rent Control*, by Kaushik Basu and Patrick Emerson, World Bank, 1998.

[3] Please see [Le Bayon, Madec and Rifflart \(2013\)](#) [in French] for an evaluation of the regulation of the French rental market.

Pensions: the Moreau report's poor compromise

By [Henri Sterdyniak](#)

Under pressure from the financial markets and Europe's institutions, the government felt obliged to present a new pension reform in 2013. However, reducing the level of pensions should not now be a priority for French economic policy: it is much more urgent to re-establish satisfactory growth, reform the euro zone's macroeconomic strategy, and give a new boost to France's industrial policy as part of an

ecological transition. Establishing a committee of senior officials and experts is a common practice that is used these days to depoliticize economic and social choices and distance them from democratic debate. In this respect, [the Moreau report](#), released on 14 June 2013, seems like a bad compromise. Although it does not call into question the public pension system, it weakens it and does not give itself the means to ensure the system's social viability.

Do the social security accounts have to be balanced during a depression?

The deficit in the pension schemes in 2013 was mainly due to the depth of the recession, which has reduced the level of employment by about 5%, causing a loss of about 12 billion euros in funding for the pension schemes. The central objective of Europe's economic policy should be to recover the jobs lost. Unfortunately, the Moreau report proposes continuing the strategy of a race to the bottom that is being implemented in Europe and France: "the pension schemes must contribute to restoring the public accounts and to France's international credibility" (page 82). The report forgets that lower pensions lead to a decline in consumption, and thus in GDP, and to lower tax revenues and social security contributions, especially since all the euro zone countries are doing the same thing.

The report recommends reducing the deficit in the pension system relatively quickly by increasing the taxes paid by retirees. It adopts several well-known proposals uncritically. It would align the rates of pensioners' CSG wealth tax with those of the employed. At one time, unlike employees, pensioners did not pay health insurance contributions. They have been hit by the establishment and then increase in the CSG tax. They already pay an additional contribution of 1% on their supplementary pensions. They are suffering from the retreat of the universal health scheme in favour of top-up health insurance. Increasing their CSG rate from 6.6% to 7.5%

– the same as for employees – would bring in 1.8 billion euros. But shouldn't it be necessary in exchange to eliminate the 1% contribution on supplementary pensions and make their top-up health insurance premiums (which are not paid by the companies) deductible?

Pensioners are entitled, like employees, to a 10% allowance for business expenses, but with a much lower ceiling. Even for employees, this allowance is much higher than actual business expenses; it offsets to some extent the possibilities of tax evasion by non-employees. The removal of the allowance would lead to 3.2 billion euros more in tax revenue to the state and a 1.8 billion reduction in certain benefits, linked to the amount of taxable income. Retirees would lose 2% of their purchasing power. But it is hard to see how this 5 billion would make its way into the coffers of the pension programmes.

Taxing pension family benefits (which would yield 0.9 billion) is certainly more justifiable, but again it is unclear how and why the product of this tax would go to the pension funds, especially as family benefits are the responsibility of the CNAF (National family benefits fund).

On the other hand, with regard to increasing contributions the report is very timid in at best proposing an increase of 0.1 percentage point per year for 4 years, *i.e.* ultimately 1.6 billion euros in employee contributions and 1.6 billion in employer contributions.

Most importantly, the report intends to increase the highest pensions (those who pay the full rate of CSG tax) only at the rate of inflation: 1.2 points for 3 years, thereby hitting them with a reduction of 3.6% in their purchasing power. Pensions subject to the reduced rate of CSG would lose only 1.5%. The lowest pensions would be spared. While this disparity in efforts may seem justified, the reliability of the public pension system would be seriously undermined. How can we be sure that this de-indexation will last only three

years, that it will not become a more or less permanent management tool, which would especially hit older pensioners whose standard of living is already low? As the pensions received by a retiree are not all currently centralized, it is difficult to have the indexation of pensions vary in accordance with their level. The solution advocated by the report – to take into account the situation of the pensioner vis-à-vis the CSG – is hard to manage; making someone's pension level depend on their family's tax situation is just not justifiable. Pensions are a social right, a return on the contributions paid in, and not a tool for adjustments. How can we justify a 3.6% decline in the purchasing power of part of the population while GDP per capita is expected to continue to rise? Should the purchasing power of pensioners be cut when it has not benefited from an increase since 1983, even during periods of wage growth? Respect for the implicit social contract that underpins the pension system means that pensioners should make the same efforts as employees, no more, no less.

Furthermore, in times of economic recession the refrain that *efforts need to be equitably distributed* is dangerous. If everyone makes an effort by accepting less revenue and then reducing their expenditure, the inevitable result will be a drop in overall consumption, which, given spare production capacity, will be accompanied by a decline in investment and thus in GDP.

Guaranteeing a fall in pensions

In the medium term, the report's main concern is to ensure a decline in the relative level of pensions. Indeed, because of the Balladur reform, since 1993 wages recognized in the general pension scheme have been re-valued based on prices, and not on the average wage. The replacement rate (the ratio of the first pension payment to final salary) falls in line with strong increases in the average wage: at one time the pension system's maximum replacement rate was 50%, but this

drops to 41.5% if real wages rise by 1.5% per year, but only to 47% if they rise by 0.5% per year. The mechanism introduced will lead to lowering the average level of pensions by 31% if the real wage increases by 1.5% per year, by 12% if it grows by 0.5% per year or by 0% if it stagnates. However, in recent years, wages have been rising by only 0.5% per year. The relative level of pensions might then recover. It is necessary therefore to increase wages to reduce the relative level of pensions.

The committee of experts gathered around Mrs. Moreau have therefore made two alternative proposals:

- – Either the wages used will be re-valued only as: price + (real wages less 1.5%), which means that, regardless of the wage increase, the maximum replacement rate for general pensions would fall to 41.5%. The relative decline in pensions would therefore be definitively consolidated. On the technical side, the increase in wages recorded will become a tool for adjustment, whereas, objectively, it should be used to calculate the average wage over the career; the oldest wages would be sharply devalued. However, the report acknowledges (page 107) that the current level of pensions corresponds to parity in living standards between active employees and pensioners, and that the proposed change would lead eventually to lowering the standard of living for retirees by 13%. Nevertheless, it considers that “this development is acceptable”. Is this a judgment that should be made by the experts or by the citizens? Moreover, it neglects that this loss would come on top of the impact of the tax reforms and de-indexation that have also been recommended.
- – Or, every year a committee of experts would propose a reduction in the level of the pensions to be paid based on a *demographic factor* that would ensure the system is balanced. In addition to the fact that this would be

another blow to democracy (isn't it up to the citizens to arbitrate between pension levels and contribution rates?) and to social democracy (the social partners would merely be *consulted*), and employees would have no guarantee of the future level of their pension, especially given the memory of the precedent set by the appointment of an expert group for the minimum wage (the *SMIC*), which was fiercely opposed to any increase.

Lengthening the contributions period

The Moreau report calls for further lengthening the period of contribution payments required based on the principles of the 2003 Act (extending the contribution period by two years for every three year increase in life expectancy at age 60). The required contribution period would then be 42 years for the 1962 cohort (2024), 43 years for the 1975 cohort (2037), and 44 years for the 1989 cohort (in 2051). As the average age when vesting begins is currently 22 years, this would lead to an average retirement age of 65 in 2037 and 66 in 2051. This announcement is certainly designed to reassure the European Commission and the financial markets, but it leads above all to worrying the younger generations and reinforcing their fear that they will never be able to retire.

Is it really necessary to announce a decision for the next 25 years without knowing what the situation will be in 2037 or 2051 with respect to the labour market, job needs, social desires or environmental constraints? Eventually, like all the developed countries France cannot escape the need to revise its growth model. Is it really necessary to do everything possible to increase production and private sector employment at a time when ecological constraints should be pushing us to decrease material output? Maintaining the possibility of a period of active retirement in good health is a reasonable use of productivity gains. Reform should not go beyond a retirement age of 62 years and a required contribution period of 42 years. So if the "long career" approach is maintained,

people who start work at age 18 can retire at 60, and those who start at age 23 will stay on until 65. But working conditions and career development programmes need to be overhauled so that everyone can actually stay in work until those ages. This also implies that young people seeking their first job receive unemployment benefits, and that the youthful years of precarious employment are validated.

Taking the arduous character of work into account

The convergence of public, supplementary and private pension programmes likewise involves taking into account how arduous jobs are, by distinguishing between professions that are difficult to exercise after a certain age, meaning some kind of mid-term conversion is necessary, and jobs that are too tough, which can reduce life expectancy and thus should be phased out. For those who still have to do such jobs, periods of heavy work should give rise to possible bonus contribution periods and reductions in the age requirements. Common criteria should be applied in all the pension systems. In offering only one year's bonus for 30 years of hard labor, the Moreau report does not go far enough. This is almost insulting and makes it impossible to open up negotiations on a plan to align the different systems.

What is to be done?

Whereas the [COR report](#) declared only a limited deficit (1% of GDP in 2040), the Moreau report proposes inflicting a triple penalty on future pensioners: de-indexation, a lower guaranteed replacement rate and the automatic extension of the contributions period required. This is no way to reassure the young generations or to highlight the advantages of the old-age pension system.

Pension reform is not a priority for the year 2013. In the short term, concern should be focused not on the financial imbalances in the regimes induced by the crisis but mainly on

getting out of the depression. A strategy of a race to the bottom economically and socially, which is what de-indexation would lead to, must be avoided.

In the medium term, in order to convince young people that they will indeed enjoy a satisfying retirement, the goal should be to stabilize the pension / retirement ratio at close to its current level. The State and the unions must agree on target levels for the net replacement rate for normal careers: 85% for the minimum wage level; 75% for below the social security ceiling (3000 euros per month); and 50% for one to two times that ceiling.

To guarantee the pay-as-you-go pension system, the government and the unions must state clearly that a gradual increase in contributions will be required to bring the system into equilibrium, if necessary, once a strategy of extending the length of careers has been implemented at the company level that corresponds to the state of the labour market and actual workforce needs.

Reforming the conjugal quotient

By [Guillaume Allègre](#) and [Hélène Périvier](#)

As part of a review of family benefit programmes ([the motivations for which are in any case debatable](#)), the government has announced plans to reduce the cap on the family quotient benefit in the calculation of income tax (IR) from 2014. The tax benefit associated with the presence of dependent children in the household will be reduced from 2000

to 1500 euros per half share. Opening discussion on the family quotient should provide an opportunity for a more general review of how the family is taken into account in the calculation of income tax, and in particular the taxation of couples.

How are couples taxed today?

In France, joint taxation is mandatory for married couples and civil partners (and their children), who thus form part of one and the same household. It is assumed that members of a household pool their resources fully, regardless of who actually contributes them. By assigning two tax shares to these couples, the progressive tax scale is applied to the couple's average revenue $[(R1 + R2) / 2]$. When the two spouses earn similar incomes, the marital quotient does not provide any particular advantage. In contrast, when the two incomes are very unequal, joint taxation provides a tax advantage over separate taxation.

In some configurations, separate taxation is more advantageous than joint taxation; this is due partly to the particular way that the employment bonus and tax reduction [1] operates, and to the fact that separate taxation can be used to optimize the allocation of the children between the two tax households, which by construction does not permit joint taxation. Tax optimization is complex, because it is relatively opaque to the average taxpayer. Nevertheless, in most cases, marriage (or a "PACS" civil partnership) provides a tax benefit: 60% of married couples and civil partners pay less tax than if they were taxed separately, with an average annual gain of 1840 euros, while 21% would benefit from separate taxation, which would save them an average of 370 euros ([Eidelman, 2013](#)).

Why grant this benefit just to married couples and civil partners?

The marital quotient is based on the principle that resources

are fully pooled by the couple. The private contract agreed between two people through marriage or a PACS constitutes a “guarantee” of this sharing. In addition, the marriage contract is subject to a maintenance obligation between spouses, which binds them beyond the wedding to share part of their resources. However, the Civil Code does not link “marriage” to the “full pooling” of resources between spouses. Article 214 of the Civil Code provides that spouses shall contribute towards the expenses of the marriage “in proportion to their respective abilities”, which amounts to recognizing that the spouses’ abilities to contribute may be unequal. Since 1985, Article 223 has established the principle of the free enjoyment of earned income, which reinforces the idea that marriage does not mean that the spouses share the same standard of living: “each spouse is free to practice a profession, to collect earnings and wages and to spend them after paying the costs of the marriage”. The professional autonomy of the spouses and the right to dispose of their wages and salaries are fully recognized in the Civil Code, whereas the Tax Code is limited to an overview of the couple’s income and expenditures.

In addition, there is some dissonance between the social and the tax treatment of couples. The amount of the RSA benefit [income support] paid to a couple is the same whether they are married or common-law partners. As for the increased RSA paid to single mothers with children, being single means living without a spouse, including a common law partner. Cohabitation is a situation recognized by the social system as involving the pooling of resources, but not by the tax system.

Do couples actually pool their resources?

Empirical studies show that while married couples tend to actually pool all their income more than do common-law partners, this is not the case of everyone: in 2010, 74% of married couples reported that they pooled all their resources, but only 30% of PACS partners and 37% of common-law couples.

Actual practice depends greatly on what there is to share: while 72% of couples in the lowest income quartile report pooling their resources fully, this is the case for only 58% of couples in the highest quartile ([Ponthieux, 2012](#)). The higher the level of resources, the less the couple pools them. Complete pooling is thus not as widespread as assumed: spouses do not necessarily share exactly the same standard of living.

Capacity to contribute and number of tax shares allocated

The tax system recognizes that resources are pooled among married couples and civil partners, and assigns them two tax shares. The allocation of these tax shares is based on the principle of ability to pay, which must be taken into account to be consistent with the principle of equality before taxation: in other words, the objective is to tax the standard of living rather than income *per se*. For a single person and a couple with the same incomes, the singleton has a higher standard of living than the couple, but due to the benefits of married life it is not twice as high. To compare the living standards of households of different sizes, equivalence scales have been estimated ([Hourriez and Olier, 1997](#)). The INSEE allocates a 1.5 share (or consumption unit) to couples and a 1 share to single people: so according to this scale, a couple with a disposable income of 3000 euros has the same standard of living as a single person with an income of 2000 euros. However, the marital quotient assigns two shares to married couples but one to the single person. It underestimates by 33% the standard of living of couples relative to single people, and therefore they are not taxed on their actual ability to contribute.

Moreover, once again there is an inconsistency between the treatment of couples by social policy and by fiscal policy: social security minima take into account the economies of scale associated with married life in accordance with the equivalence scales. The base RSA (*RSA socle*) received by a couple (725 euros) is 1.5 times greater than that received by

a single person (483 euros). There is an asymmetry in the treatment of spouses depending on whether they belong to the top of the income scale and are subject to income tax, or to the bottom of the income scale and receive means-tested social benefits.

What family norms are encapsulated in the marital quotient?

The marital quotient was designed in 1945 in accordance with a certain family norm, that of Monsieur Gagnepain and Madame Aufoyer ["Mr Breadwinner and Ms Housewife"]. It contributed together with other family programmes to encouraging this type of family organization, *i.e.* the one deemed desirable. Until 1982, tax was based solely on the head of the family, namely the man, with the woman viewed as the man's responsibility. But far from being a burden on her husband, the wife produced a free service through the domestic work she performed. This home production (the care and education of children, cleaning, cooking, etc.) has an economic value that is not taxed. Single earner couples are thus the big winners in this system, which gives them an advantage over dual earner couples, who must pay for outsourcing part of the household and family work.

In summary, the current joint taxation system leads to penalizing single persons and common-law couples compared to married couples and civil partners, and to penalizing dual-earner couples compared to single-earner couples. The very foundations of the system are unfavourable to the economic liberation of women.

What is to be done?

The real situation of families today is multiple (marriage, cohabitation, etc.) and in motion (divorce, remarriage or new partnerships, blended families); women's activity has profoundly changed the situation in the field. While all couples do not pool their resources, some do, totally or

partially, whether married or in common law unions. Should we take this into account? If yes, how should this be done in light of the multiplicity of forms of union and the way they constantly change? This is the challenge we face [in reforming the family norms and principles that underpin the welfare state](#). Meanwhile, some changes and rebalancing could be achieved.

Currently, the benefit from joint taxation is not capped by law. It can go up to 19,000 euros per year (for incomes above 300,000 euros, an income level subject to the highest tax bracket) and even to almost 32,000 euros (for incomes above 1,000,000 euros) if you include the benefit of joint taxation for the exceptional contribution on very high incomes. For comparison, we note that the maximum amount of the increase in the RSA for a couple compared to a person living alone is 2900 euros per year. The ceiling on the family quotient (QF), which is clear, is 1500 euros per half share. A cap on the marital quotient of 3000 euros (twice the cap on the QF) would affect only the wealthiest 20% of households (income of over 55,000 euros per year for a single-earner couple with two children). At this income level, it is likely that the benefit from joint taxation is related to an inequality in income that is the result of specialization (full or not) between the spouses in market and non-market production or that resources are not fully shared between the partners.

Another complementary solution would be to leave it up to every couple to choose between a joint declaration and separate declarations, and in accordance with the consumption scales commonly used to accord the joint declaration only 1.5 shares instead of 2 as today. The tax authorities could calculate the most advantageous solution, as households do not always choose the right option for them.

A genuine reform requires starting a broader debate about taking family solidarity into account in the tax-benefit system. In the meantime, these solutions would rebalance the

system and turn away from a norm that is contrary to gender equality. At a time when the government is looking for room for fiscal maneuvering, why prohibit changing the taxation of couples?

[\[1\]](#) A tax reduction [*décote*] is applied to the tax on households with a low gross tax (less than 960 euros). As the reduction is calculated per household and does not depend on the number of persons included in the household, it is relatively more favourable for singles than for couples. It helps ensure that single people working full time for the minimum wage are not taxable. For low-income earners, the reduction thus compensates the fact that single persons are penalized by the marital quotient. No similar mechanism is provided for high-income earners.

Inequality and Global Imbalances: reconsidering old ideas to address new problems

by [Jean-Luc Gaffard](#) and [Francesco Vona](#)

The main challenge of the Bretton Woods agreements was to reconcile social justice and full employment to be achieved through domestic policies with an international discipline and progress toward trade liberalization (Rodrick 2011). After more than six decades, such division of objectives between international and domestic policies has been questioned by the current economic crisis, characterized by high debt levels, remarkable global imbalances and low global demand. It can

hence be useful to reopen an old debate by reconsidering ideas that were discarded in the past, such as the proposal of Keynes to create global demand stabilizers. Our suggestion is that a global stabilizer that prescribes surplus countries to gradually increase their wages can have both a direct positive effect on global demand, without increasing public debts, and an indirect one by favouring a reduction in income disparities.

The structural lack of global demand represents unquestionably the key constraint to exit from the great recession. Worldwide, sluggish demand appears as the resultant of two quite independent factors, a *constraint* and a *political choice*. The choice is of those countries, especially emerging ones plus Germany, that build up their wealth on export-lead growth using a mix of wage moderation and clever firms' industrial strategies. The public debt constraint, instead, impacts upon the possibility to expand demand of the majority of developed countries. As these countries should enforce restrictive fiscal policies to prevent default, their only chance to expand demand impinges on redistribution in favour of poorer households who consume a larger fraction of their incomes.

The current debate on this matter is misleadingly at best, oscillating between the usual Scylla and Charybdis of more or less state intervention. From a standard Keynesian viewpoint, the bottleneck in global demand is the consequence of neo-liberal policies, which in Europe are worsened by the opposition of Nordic countries against large scale public funded EU programs, possibly financed with EU bonds. From an orthodox viewpoint, which relies upon the belief in a trickle-down mechanism (increase the wealth of the rich eventually benefit all), the crisis represents an opportunity to remove the last barriers to a full liberalization of labor and goods markets. These barriers would prevent EU economies to raise their competitiveness with respect to their new emerging

competitors, the BRICS (Brazil- Russia- India-China- South Africa). While Keynesians are overoptimistic in their belief that more public expenditures will succeed in ensuring a fresh start to our feeble economies, orthodox economics neglects by assumption the problem of global demand. In particular, it ignores that a race for competitiveness based on further wage moderation and welfare state cuts would only amplify the global demand constraint.

It is well documented that, in last thirty years, living conditions and real wages of both low and middle skilled workers decreased substantially while profits and, in general, earnings of top 1% earners increased impressively, especially since the 2000s (Piketty and Saez 2006, Eckstein and Nagypál 2004, OECD 2011). The widening in incomes has been especially large in the US and Anglo-Saxon countries where deregulated labour markets allow wage to adjust downward, but also affected European economies in other forms such as structurally higher unemployment rates and higher profit shares (Krugman 1994). The excessive decrease of the median wage with respect to the average productivity created a fundamental wedge between demand, which is more sensible to wage changes than to changes in profit opportunities, and supply, for which the opposite holds. Globalization plays a key role in increasing inequality between profits and wages as increases in capital mobility were not accompanied in parallel increases in international labour mobility (Stiglitz 2012). Only the joint working of increasing debt (both private and public) and of productivity improvements related to new information & communication technologies prevented the demand deficit to emerge earlier together with the dysfunctional role of excessive inequality (see Stiglitz 2012, Fitoussi and Saraceno 2011, and on the role of technical change Patriarca and Vona 2013). Global imbalances played a key role in maintaining high the level of global demand as long as savings of countries with commercial surpluses (e.g. China) were borrowed to households and governments in countries with

commercial deficits (e.g. the US). By mitigating the consequence of on excessive inequality, they keep also under control the political pressure for redistribution. But, as we have seen, they are a source of macroeconomic instability. In fact, the saving glut in export-led economies creates a mass of liquidity in search of investment opportunities that increases the likelihood of asset price bubbles, especially in presence of an inadequate and oversized financial sector (Corden 2011).

Leaving ethical considerations aside, the concern for rising inequality in western economies would have been irrelevant for overall growth provided the lower demand there was compensated by a growing demand in emerging and export-led countries, such as China. Unfortunately, the compensation did not and is not expected to take place soon for at least two reasons.

First, oligarchies in emerging economies (especially China) found it convenient to sustain global demand indirectly, rather than through wage increases proportional to productivity, by investing large current-account surpluses in the US financial market and so financing US consumers. The indirect empirical support for this argument is that inequality increased in China too since the market friendly reform started. Especially inequality in factor shares, i.e. between profits and wages, increased substantially since the 1995 with the labour share falling by between 7.2% and 12.5% depending on the accounting definitions used (Bai and Qian 2010).

Secondly, a historical comparison of catching-up episodes can help shed light on the origin of the global demand glut. Between the second half of the 19th century and the beginning of the 20th century, the economic catching-up of both Germany and the US with the UK was soon followed by convergence in living standards and wages (Williamson 1998). Nowadays, the economic catching-up of China is much slower in terms of

convergence of wages and living conditions. By way of example, China's GDP per capita increased from 5.7% to 17.2% of US GDP per capita from 1995 to 2010 (source: World Penn Tables), while the hourly labour compensation cost is also increasing but reached only 4.2% of the US labour compensation cost in 2008 (source: Bureau of Labor Statistics Data). This gap between GDP per capita and unit labour cost in China clearly shows that the catching-up in terms of workers' living conditions is far slower than the economic catching-up.

The reasons for this slow wage convergence deserve further investigations and have probably to do with factors affecting institutional changes that support redistribution from profits to wages, including culture and tax progressivity (Piketty and Qian 2009), in the catching up country. Certainly, the size of Chinese population relative to the world population did not help in fastening these institutional changes. By simple assumptions of standard bargaining theory, bargaining power depends on the outside option that, for workers, is limited by existence of a large 'reserve army' willing to work for extremely low wages. One can then argue that the larger the reserve army, the longer it takes to reduce the downward pressure on the workers' wages in the advanced part of the economy. De facto, the wage convergence has been much faster in previous catching-up episodes since the labour constraint becomes stringent sooner due to the smaller size of the population, allowing workers to fight for better conditions and higher wages. In a nutshell, an excessively large reserve army in the countryside prevents both wages to increase and democratic reforms to take off in China, thus creating a wedge between the timing of economic growth and the one of political reforms, required to rebalance demand and supply.

Not only the slow wage convergence of catching-up country causes persistent global imbalances between demand and supply, it is also the essential reason of the obstacles faced to reduce inequality in western countries. First, implementing

redistributive policies and increases in real wages are likely to further reduce competitiveness and to bring about a substantial investment outflows. Second, the trend of delocalizing production abroad can have forced workers to accept lower wages; an effect that is difficult to correlate empirically with observable proxies of globalization such as trade or investment outflows.. While empirical analyses looking at the last 30 years of the 20st century concur that globalization was not the main driver of inequality increases, recent evidence shows that: (i) Outsourcing had a negative impact on middle and low skill wages and employment levels in developed countries, especially in the last decade (Firpo, Fortin and Lemieux 2011); (ii) The effect of trade on inequality can be underestimated due to production fragmentation (Krugman 2008).

Global imbalances are also likely to create political obstacles to policies aimed at reducing inequality. An oversized financial sector contributed to increase earnings of the top 1% of the population and so their lobbying power. This allowed these super-rich to heavily influence political decisions making their rents higher, especially through a massive reduction of tax progressivity (Fitoussi and Saraceno 2012) and other opaque channels (e.g. fiscal loopholes, Stiglitz 2012). Now, this lobby of super-rich makes it exceedingly difficult to limit the power of finance and restore fairer tax rates for financial rents and top incomes.

How to avoid the stalemate generated by global imbalances and global pressure for wage moderation? Are there in the system as it is endogenous forces that will eventually reduce global imbalances and inequality?

The first option is to wait for reforms in China. Politicians in western countries can hope in a speeding up of this process that will lead to a parallel increase in real wages and hence global demand. This will be the ideal market solution, but it

is unlikely to occur in the short- and medium-run. A second possibility will consist in a large scale devaluation of western economies' currencies: Dollar, Euro and Yen. However, such a policy is likely to create a devaluation spiral, also increasing investment uncertainty. Moral suasion is unlikely to convince Chinese politicians to not devalue the Yuan as their assets in dollars and euro will depreciate substantially. A third protectionist solution is not convincing at all as it is likely to trigger a retaliation spiral paving the way for global wars. Indirect and global political interactions are an issue at stake here: nationalistic political parties and the associated protectionist policies are more likely to become popular if the timing of Chinese reforms is too slow and so the adjustment process too painful in the medium-run. A fourth solution is to resort to an old idea of John Maynard Keynes on 'global automatic stabilizers'. In the post-WWII context, Keynes proposed an international institution, the so-called International Clearing Union' (ICU), to reabsorb both commercial surpluses and deficit, seen as equally worrisome (see also the article in Italian of A. Bramucci 2012). In particular, persistent commercial surpluses were seen as a potential source of long-term shortages of global demand. The main idea was to coordinate thorough the ICU both re-evaluations and demand expansions for the countries in surplus, and de-evaluation and control of capital movements for countries in deficit. Such an institution would go in the right direction to help reabsorbing global imbalances, but lack enforcement power to ensure that the necessary adjustments are effectively put in place.

Combining a global rule for wage adjustment with WTO sanctions can represent a more clever and reliable way to revive global demand. The first part of the proposal would consist in linking real wage growth not only to productivity growth, as proposed by A. Watt (2011), but also to commercial surplus. Conditioned to the country's level of development (so the

prescribed adjustments should take into account of initial level of GDP per capita and obviously adjusted for PPPs), countries experiencing medium-term growths both in productivity and in the commercial surplus have to increase real wages. Otherwise, other countries could raise tariffs on the products exported by the country that does not follow the rule. The effective capacity to implement of the rule can be reinforced by giving to Unions, either global or local, and NGOs the power to control for specific situations where the rule is not respected, i.e. special export-oriented zone in China where labour standards are particularly low. In the case of commercial deficits, the country could be asked to follow (real) wage moderation and to put under control public deficit. In such a context, these restrictive policies would have limited harmful effects on growth for the increase in external demand that follows the wage increase in the export-oriented countries. The proposal would have also positive effect in reducing the overall level of functional inequality worldwide, restoring a more balanced distribution between wages and profits.

Overall, the coordination of global demand and supply would be restored using a simple automatic stabilizer that will neutralize the protectionist treat and, at the same time, will relax the constraints that prevent inequality-reducing policies to be approved in western countries.

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Housing and the city: the new challenges

By Sabine Le Bayon, [Sandrine Levasseur](#) and Christine Rifflart

The residential real estate market is a market like no other. Since access to housing is a right and since inequalities in housing are increasing, the role of government is crucial to better regulate how the market functions. France has a large stock of social housing. Should it be expanded further? Should it have a regulatory role in the overall functioning of the housing market? Should our neighbours' systems of social housing, in particular the Dutch and British systems, be taken as models? On the private market, the higher prices of home purchases and rentals illustrate the lack of housing supply in the country's most attractive areas. At the individual level, the residential market is becoming less fluid: moving is difficult due to problems finding housing suited to career and family needs. It is therefore necessary to develop appropriate policies to enhance residential mobility and reduce imbalances by stimulating the supply of new housing.

Housing is also an integral part of our landscape, both urban and rural. It distinguishes our cities of today and of tomorrow. The commitments made in the framework of the Grenelle environmental consultation process demand a real

revolution in land use as well as in technical standards for construction. To ensure more housing, should undeveloped land be used or should developed land be exploited more intensely? How should a housing stock that has become obsolete in terms of energy standards be renovated, and how should this be financed?

These are the challenges addressed by the contributions collected in the new book [Ville et Logement](#) in the Débats et politiques series of the *Revue de l'OFCE*, edited by Sabine Le Bayon, Sandrine Levasseur and Christine Rifflart. With authors from a variety of disciplines (economics, sociology, political science, urban planning) and backgrounds (researchers as well as institutional players), this review aims to improve our understanding of the issues related to housing and the city.

What kind of pension reform for 2013?

In a speech on 28 March, Francois Hollande raised the 20 billion euro deficit forecast for 2020 in order to announce a further extension of the pension contributions period, while refusing to end the indexation of low state pensions and pensions in the statutory pension system. Francois Hollande and the French government also pledged to re-balance the public finances by 2017. As they no longer wish to increase the tax burden in a period of weak or even non-existent growth, this means cutting public spending by at least 70 billion euros, or about 7%. As pensions account for a quarter

of public expenditure, they cannot be spared the austerity axe. There is a major risk that the goal of re-balancing the public finances will result in lowering the level of pension payments. When negotiating the supplemental pension arrangements in March 2013, the MEDEF managed to obtain pension increases of 1 percentage point below the inflation rate for 3 years, meaning a 3% loss in purchasing power. In a [recently published note](#) (*Notes de l'OFCE*, no. 26 dated 24 April 2013), Henri Sterdyniak explains that there are other possible approaches to reform.